#### INDEPENDENT AUDITOR'S REPORT

#### THE BOARD OF LIQUOR LICENSE COMMISSIONERS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2000 AND 1999



City of Baltimore Department of Audits

# AUDIT REPORT THE BOARD OF LIQUOR LICENSE COMMISSIONERS FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999

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#### ANNUAL FINANCIAL REPORT

ON

# THE BOARD OF LIQUOR LICENSE COMMISSIONERS FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999

#### CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



## DEPARTMENT OF AUDITS YOVONDA D. BROOKS, CPA City Auditor

Room 321, City Hall Baltimore, Maryland 21202 Telephone: (410) 396-4783 Telefax: (410) 545-3961

#### INDEPENDENT AUDITOR'S REPORT

May 9, 2001

Honorable Joan M. Pratt, Comptroller And Other Members of the Board of Estimates City of Baltimore

We have audited Exhibit A, the Comparative Statement of Revenues Collected and Expenditures Arising from Cash Transactions of the Board of Liquor License Commissioners for the Fiscal Years Ended June 30, 2000 and 1999. This financial statement is the responsibility of the Board of Liquor License Commissioners' management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenue collected and expenses paid during the fiscal years ended June 30, 2000 and 1999, on the basis of accounting described in Note 2.

Our audit was made for the purpose of forming an opinion on the financial statement taken as a whole. The supporting schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial

statement and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 9, 2001 on our consideration of the Board of Liquor License Commissioners' compliance and internal control over financial reporting.

This report is intended solely for the information and use of the Board of Liquor License Commissioners, State of Maryland, and the City of Baltimore management and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record, and its distribution is not limited.

Respectfully submitted,

Yovonda D. Brooks, CPA City Auditor

# BOARD OF LIQUOR LICENSE COMMISSIONERS COMPARATIVE STATEMENT OF REVENUES COLLECTED AND EXPENDITURES ARISING FROM CASH TRANSACTIONS FOR FISCAL YEARS ENDED JUNE 30, 2000 AND 1999

	2000	1999	IN	CHANGE CREASE CREASE)
Gross Revenues: Alcoholic Beverage Licenses Liquor Board Advertising Fees Liquor Board Fines Liquor Board Late Renewal Fees Liquor Board Reporting Fees	\$ 1,507,929 82,100 73,581 33,200 2,452	\$ 1,494,270 71,070 59,953 32,580 2,296	\$	13,659 11,030 13,628 620 156
Total Gross Revenues	\$ 1,699,262	\$ 1,660,169	\$	39,093
Adjustments to Gross Revenues: Refunds Authorized - License Fees	£ 4.000.000	\$ (200)	\$	200
Total Net Revenues	\$ 1,699,262	\$ 1,659,969	\$	39,293
Expenditures: Salaries Other Personnel Costs Contractual Services Materials and Supplies. Equipment - Replacement.	\$ 1,012,502 276,704 137,114 11,672 25,153	\$ 868,406 237,794 135,498 18,189 19,420	\$	144,096 38,910 1,616 (6,517) 5,733
Total Expenditures	\$ 1,463,145	\$ 1,279,307	\$	183,838
Excess of Revenues (Expenditures)	\$ 236,117	\$ 380,662	\$	(144,545)

See notes to financial statement.

#### BOARD OF LIQUOR LICENSE COMMISSIONERS Notes to Financial Statement

#### 1. Background

The Board of Liquor License Commissioners for Baltimore City (Board) is an agency of the State of Maryland and therefore is not subject to the direct supervision of the Mayor and City Council. However, the revenues from issuance of licenses are remitted to the City, and all expenses of the Board are paid by the City.

Under the provisions of the Annotated Code of Maryland Article 2B, Section 10-202, the Board has the responsibility to assure all applicants meet the requirements for issuing licenses before certificates are issued. All licensing fees are paid directly to the Baltimore City's Director of Finance.

As of June 1, 1999, the Board became the licensing and regulatory agency for adult entertainment businesses. The jurisdiction was transferred from the Department of Housing and Community Development through City of Baltimore Ordinance 99-417, Council Bill 98-859.

#### 2. Significant Accounting Policies

The Board's policy is to prepare its financial statement on the cash basis; consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statement does not purport to present financial position and results of operations on the accrual basis of accounting.

Encumbrances charged to the Board's appropriation accounts are not reflected in the financial statement.

#### 3. Rates of License Fees

The following license fee rates were in effect for fiscal year 2000.

License Class ar	nd Description	<u>Symbol</u>	Rate
Beer and Light	Wine		
Class A	Off Sale - Package Goods	WA	\$100
Class A	Off Sale - Supplemental to WA (per Sunday)	WAS	25
Class B	On Sale - Restaurant	WB	150
Class C	On Sale - Club	WC	75
Class C	On Sale - One Day	WS	25
Class D	On Sale - Tavern	WD	150

License Class and De	escription	<u>Symbol</u>	Rate
Beer, Wine and Liqu	or		
Class A	Off Sale - Package Goods	LA	\$650
Class A-2	Off Sale - Package Goods	LA-2	650
Class A	Off Sale - Supplemental to LA (per Sunday)	LAS	25
Class B	On Sale - Restaurant	LB	1,000
Class B	On Sale - Hotel and Motel	LBHM	5,000
Class B	On Sale - Arena License	LBAL	5,000
Class B	On Sale - Racetrack (per day)	LBRL	50
Class C	On Sale - Club	LC	500
Class C	On Sale - One Day	LS	50
Class D	On Sale - Tavern	LD	625
Class BD-7	On Sale - Special License (including		
	amusement license)	LBD7	1,200

The annual license fee for an adult entertainment establishment is \$1,000.

The Board has the authority to assess a late charge at the rate of \$50 per day for each day that an application for renewal is filed late. The late charge assessed may not exceed \$1,500. Applications for renewal must be filed during the month of March each year.

#### BOARD OF LIQUOR LICENSE COMMISSIONERS SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES BUDGET AND ACTUAL

#### FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999

2000 1999

	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Net Revenues: Alcoholic Beverage Licenses Liquor Board Advertising Fees Liquor Board Fines Liquor Board Violations. Liquor Board Late Renewal Fees. Liquor Board Reporting Fees.	\$ 1,440,000 78,000 100,000	\$ 1,507,929 82,100 73,581 33,200 2,452	\$ 67,929 4,100 (26,419) 33,200 2,452	\$ 1,440,000 55,000 60,000	\$ 1,494,270 71,070 59,953 (200) 32,580 2,296	\$ 54,270 16,070 (47) (200) 32,580 2,296
Total Revenues	\$ 1,618,000	\$ 1,699,262	\$ 81,262	\$ 1,555,000	\$ 1,659,969	\$ 104,969
Expenditures and Encumbrances: Salaries and Wages Other Personnel Costs Contractual Services Materials and Supplies Furniture and Equipment.	\$ 975,646 242,471 167,000 8,100 2,000	\$ 987,774 273,204 134,492 11,672 (5,772)	\$ (12,128) (30,733) 32,508 (3,572) 7,772	\$ 876,968 222,500 167,000 8,100 2,000	\$ 872,958 237,560 71,928 18,189 59,067	\$ 4,010 (15,060) 95,072 (10,089) (57,067)
Total Expenditures and Encumbrances	\$ 1,395,217	\$ 1,401,370	\$ (6,153)	\$ 1,276,568	\$ 1,259,702	\$ 16,866
Excess of Revenues Over Expenditures and Encumbrances	\$ 222,783	\$ 297,892	\$ 75,109	\$ 278,432	\$ 400,267	\$ 121,835
Adjustments to Conform to Cash Basis:  Elimination of Effect of Encumbrances  Elimination of Effect of Accruals  Excess of Revenues Over Expenditures - Cash Basis		(33,547) (28,228) \$ 236,117			(28,924) 9,319 \$ 380,662	

#### BOARD OF LIQUOR LICENSE COMMISSIONERS SUMMARY OF RECEIPTS AND DISBURSEMENTS OF APPEAL FEES ACCOUNT FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999

Cash Balance - July 1, 1998  Appeal Account Receipts - Appeal Fees Fiscal Year 1999		\$ 917 1,000
Total To Be Accounted For		\$1,917
Disbursements:  Bank Service Charges  Payment Check #265	\$ 30 385	415
Cash Balance - June 30, 1999 - Confirmed		\$1,502
Cash Balance - July 1, 1999		\$ 1,502
Appeal Account Receipts - Appeal Fees Fiscal Year 2000	1,300 (100)	1,200
Total To Be Accounted For		\$2,702
Disbursements:  Bank Service Charges  Payment Check #267	\$ 30 95	125
Cash Balance - June 30, 2000 - Confirmed		\$2,577

# AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS FOR

THE BOARD OF LIQUOR LICENSE COMMISSIONERS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2000 AND 1999

#### CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



#### DEPARTMENT OF AUDITS YOVONDA D. BROOKS, CPA City Auditor

Room 321, City Hall Baltimore, Maryland 21202 Telephone: (410) 396-4783 Telefax: (410) 545-3961

# AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

May 9, 2001

Honorable Joan M. Pratt, Comptroller And Other Members of the Board of Estimates City of Baltimore

We have audited Exhibit A, the Comparative Statement of Revenues Collected and Expenditures Arising from Cash Transactions of the Board of Liquor License Commissioners for the Fiscal Years Ended June 30, 2000 and 1999, and have issued our report thereon dated May 9, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the Board of Liquor License Commissioner's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board of Liquor License Commissioner's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Board of Liquor License Commissioner's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying schedule of internal control findings as CONDITION I.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

We noted other matters involving the internal control over financial reporting and its operation that are reported as CONDITIONS II through VI in the accompanying schedule of internal control findings. We also followed up on certain matters which were discussed in our prior audit report. We are reporting on these matters in Attachment I of this report.

This report is intended solely for the information and use of the Board of Liquor License Commissioners, State of Maryland, and the City of Baltimore management and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record, and its distribution is not limited.

Respectfully submitted,

Yovonda D. Brooks, CPA City Auditor

#### SCHEDULE OF INTERNAL CONTROL FINDINGS

#### REPORTABLE CONDITIONS INVOLVING INTERNAL CONTROLS

#### CONDITION I – ADEQUATE SEGREGATION OF DUTIES WAS NOT MAINTAINED

We noted that adequate segregation of duties was not maintained regarding the work performed by an employee of the Board's administrative division. Additional responsibilities were assigned to the Accounting Assistant II during fiscal year 2000. The duties of the Accounting Assistant II include: maintaining revenue records; preparing the Monthly Budget Reports; performing the revenue reconciliations; preparing cash deposit slips and delivering revenues to the City's Collections Division; retrieving the agency copies of licenses from the Collections Division; maintaining the Appeals checking account; maintaining the Inspectors' Expense checking account; and, issuing reimbursement checks to inspectors. The responsibility for these duties concentrated in a single employee subjects the agency to the risk that abuse or theft could occur and not be detected by agency staff.

Properly designed and implemented internal controls include adequate segregation of duties to reduce the opportunities for someone to both perpetrate and conceal errors or irregularities in the normal course of performing their duties. Typically, an entity achieves adequate segregation of duties by establishing controls to prevent any person from having uncontrolled access to both assets and records. Inadequate internal controls increase the risk of misappropriation of funds or other abuses.

We recommend that the Board segregate these functions assigned to its administrative staff in an effort to achieve and maintain adequate internal controls. The administrative section is comprised of two management and five staff members. Duties involving control of assets, including preparing cash deposit slips, delivering revenues to Collections, and maintaining the Appeal Fees and Inspectors' Expense accounts should be reassigned from the Accounting Assistant to other staff.

#### OTHER MATTERS INVOLVING INTERNAL CONTROLS

#### CONDITION II – NEW LICENSE FEES WERE NOT PRORATED

The Board of Liquor License Commissioners did not adhere to policies established by the Maryland Annotated Code regarding the collection of prorated license fees for new licensees for all license classes. There was only one class of license for which new license fees were properly prorated. For other license classes the full amount of the fees was collected. In total, the Board collected excess revenues in the amount of \$2,875.

According to Maryland Annotated Code, Article 2B, Section 10-207:

"The fee for every license issued for a period of less than one year (except temporary or special licenses) shall be subject to the annual fee if issued during the first three months of the license year, three fourths of the annual fee if issued during the second quarter of the license year, one half of the annual fee if issued during the third quarter of the license year and one fourth of the annual fee if issued during the fourth quarter of the license year."

When new, eligible license fees are not prorated in accordance with the code, licensees are overcharged and the Board collects excess revenues. We recommend that the Board adhere to the proration rules for applicable license fees. Supervisory monitoring and review should be included in the procedures concerning the issuance of new licenses. Furthermore, the \$2,875 in overcharged license fees should be returned to the specific licensees.

# CONDITION III – REQUIRED DOCUMENTATION REGARDING ZONING APPROVAL AND FIRE DEPARTMENT INSPECTION WAS MISSING FROM A NEW LICENSEE'S FILE

We reviewed four of the seventeen new licenses that were issued during fiscal year 2000. We noted that the file for one of those licensees did not include evidence that the required zoning approval and Fire Department inspection were obtained.

New licenses are issued to licensees only after obtaining zoning approval and building inspection of the premises from the Department of Housing and Community Development, a Fire Department inspection, and inspection by the Baltimore City Health Department. Evidence of these inspections should be included in the licensee's file and noted on the outside of the folder maintained by the Board. Without evidence to support such inspections, unqualified establishments could be issued licenses. While clerical oversight was a factor, the Board should ensure that established policies and procedures regarding license issuance are not circumvented.

We recommend that the Board ensure that all required documentation be provided and included in the files prior to issuance of any new license. We also recommend that supervisory review of new and revised licensee files be included in the procedures related to license issuance to prevent future occurrences of this condition.

### CONDITION IV – UNDERLYING TIME RECORDS DID NOT SUPPORT PAYROLL ATTENDANCE REPORT INFORMATION

The Board of Liquor License Commissioners did not adhere to policies and procedures established by the City of Baltimore (City) regarding the maintenance of payroll attendance records and related supporting documentation. We reviewed 41 payroll records and found that for 8 of them, the underlying time records did not support the information on the Payroll Attendance Report (PAR). All of the exceptions noted occurred within the Inspection Division.

According to the Administrative Manual of the City of Baltimore, Section 204-17, all agencies are required to keep a detailed record of each employee's attendance. There must be documentation on file to support the information in the attendance record. Copies of Payroll Attendance Reports alone are insufficient as evidence of employee time and attendance.

Without adequate supporting documentation, leave time used may not be reported correctly on the payroll reports submitted to Central Payroll. Consequently, leave balances on City records may not be accurate, and the City may incur erroneous salary and wage expense.

In order to enhance its internal controls over payroll, we recommend that the Board establish procedures to provide support for the Payroll Attendance Report entries for all of its employees. This may be accomplished through the following:

- The policy for maintaining sign-in/sign-out attendance sheets noting arrival and departure times, as well as time of call-out from employees in the field should be enforced;
- Leave time used and compensatory time earned should be indicated on the attendance sheet in an area designated for that purpose;
- Completed leave request and compensatory time earned forms should be kept on file for all leave time indicated on the PARs, including sick time. Appropriate approval signatures should be on each leave form.
- The payroll clerk should record attendance information for each employee on his/her Attendance Record as required by the City's Administrative Manual.

The above mentioned records should be maintained by the payroll clerk in an orderly fashion and retained in the Board's files for a minimum of three years or until the audit for that fiscal year has been performed, whichever is later.

### CONDITION V – THERE WAS A LACK OF ADEQUATE INTERNAL CONTROLS OVER THE REIMBURSEMENT OF INSPECTORS' EXPENSES

The Board of Liquor License Commissioners did not adhere to policies and procedures established by the City regarding the reimbursement of inspectors' expenses. We reviewed each of the inspector reimbursements during the months of August 1999 (four items) and May 2000 (ten items) and certain other reimbursements during fiscal year 2000. We noted eighteen exceptions related to these reimbursements that included expenses that were not supported by receipts, expenses that were not valid/appropriate, or, expenses that were not properly authorized/approved by the Assistant Inspector Supervisor.

The City's Administrative Manual (sections 240-5, 240-6, 240-10, 240-11) establishes policies and procedures for the reimbursement of employee expenses. These policies indicate that valid support is required before employee reimbursement can be provided. Inspectors submitted expense reports that included items without supporting documentation purchased during inspections and investigations.

For certain assignments, inspectors were reimbursed with per diem amounts. There are no written policies or procedures to document this as an acceptable method of reimbursement. Additionally, there was no consistency in per diem amounts paid. Some inspectors received \$12 while others received \$25. No supporting documentation, such as receipts, was on file for the per diem amounts reimbursed. Furthermore, reimbursement for a \$20 parking ticket was made to one of the inspectors. Fines are ineligible for employee reimbursement.

We recommend that the Board implement procedures to ensure that reimbursed expenses are allowable, reasonable, and supported by adequate documentation. We recommend that expenditures without receipts that were incurred on investigations be documented on a standard liquor board form created for that purpose. Additionally, such documentation would provide Board management with the tools to track and analyze these types of costs. We also recommend that employee expense reports be reviewed, approved and submitted to the Bureau of Accounting and Payroll Services in a timely manner. Appropriate supporting documentation for employee expense reports should be obtained and maintained. We recommend that policies be established for per diem reimbursements. We further recommend that the \$20 reimbursement for the parking fine be recouped from the employee.

## CONDITION VI – CHECKING ACCOUNT WAS NOT RECONCILED TO THE BANK STATEMENT BALANCE AT JUNE 30, 2000

The Inspectors' Expense checking account records were not reconciled to the bank statement at June 30, 2000. Many of the check stubs in the checkbook did not contain an issue date.

This is a continuation of a situation noted in the previous year. The responsibility for maintaining the Inspectors' Expense checking account has been assigned to the Accounting Assistant II. However, during fiscal year 2000, maintenance of the checking account records was inadequate, and monthly reconciliations were not performed.

We recommend that the Board periodically (e.g., monthly) reconcile the Inspectors' Expense records to the corresponding account's bank statement balance. We also recommend that the appropriate information for each transaction be entered in the checkbook, including check number, amount, payee, date, etc.

# ATTACHMENT I BOARD OF LIQUOR LICENSE COMMISSIONERS FISCAL YEAR ENDED JUNE 30, 2000 STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

(Findings not considered to have a material effect on the financial statement)

#### **ATTACHMENT I**

## BOARD OF LIQUOR LICENSE COMMISSIONERS FISCAL YEAR ENDED JUNE 30, 2000 STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

#### Attendance And Leave Records Not Maintained

As part of our fiscal year 1999 audit, we found that the Board of Liquor License Commissioners did not adhere to policies and procedures established by the City regarding the maintenance of payroll attendance records and related supporting documentation. Except for sign-in sheets for the full-time inspectors, there was no other documentation to support the Payroll Attendance Reports (PAR) submitted to Central Payroll for Board employees. In addition, the sign-in sheets for the full-time inspectors did not provide adequate evidence of their attendance. Often, the sign-in sheets represented the attendance for daily staff meetings, rather than for the entire workday.

#### **Current Audit Status**

The payroll and attendance information maintained by the Board for fiscal year 2000 has been improved significantly. The administrative staff now records their arrivals and departures on daily attendance sheets. Completed leave request and compensatory time earned forms were consistently maintained in the Board's payroll files. Also, the Office Supervisor now retains the desk calendar on which attendance information is recorded.

However, attendance records for the Inspection Division have not improved. We noted a similar finding related to payroll for the Inspection Division during fiscal year 2000 and have included this as Condition IV in this report.

#### License Revenue Reconciliation Not Performed

As part of the fiscal year 1999 audit, we noted that the Board did not perform monthly license revenue reconciliations to ensure that the data compiled in its accounting records agreed to amounts reported in the City's accounting records (Level III reports) and that all cash receipts were properly deposited.

#### **Current Audit Status**

The Accounting Assistant II performed monthly revenue reconciliations during fiscal year 2000.

#### Inspector Expenses Not Documented And Reimbursed Timely

As part of the fiscal year 1999 audit, we noted that inspectors' expense reports included expenses that were not supported by adequate documentation, were not always submitted on a timely basis and included non-work related mileage. Additionally, general use items for the agency were purchased through use of these employee expense reports rather than through the City's procurement procedures.

#### **Current Audit Status**

We noted findings related to inadequate documentation in support of inspectors' expense reports during fiscal year 2000 and have included these as Condition V in this report. We did not note any findings related to timeliness of expense report submissions, non-work related mileage, or purchases of general use items during fiscal year 2000.

#### <u>Inspectors' Expense Checking Account Not Maintained Properly</u>

Since January 1999, the Board did not maintain adequate records to document the activity in the checking account that was used to reimburse the expenditures reported in the inspectors' expense reports. Specifically, the transaction register did not provide the checkbook balance at June 30, 1999, deposits were not recorded in the register, and check dates were not always recorded in the register. In addition, monthly bank reconciliations were not prepared.

#### **Current Audit Status**

We noted similar findings during fiscal year 2000, and have included these as Condition VI in this report.

#### Data Processing Services Not Properly Procured

During fiscal year 1999, the Board paid one of its full-time inspectors \$16,350 for the purchase of computer software, installation and training. The Board did not use proper procurement procedures for this purchase. Specifically, a written contract was not executed, and bids were not solicited from other providers for these services. In addition, the approvals of the Bureau of Information Technology Services (BITS) and the Board of Estimates were not obtained. Finally, our review of this purchase disclosed that the Board paid for goods and services that it did not receive. Specifically, we did not find evidence that the Board received 10 site licenses, the intellectual property, and the 24 hours of training. We also could not verify that services related to consultation, design, installation and testing were actually performed. In summary, we found that the Board paid \$16,350 for only the installation of purchased software on two computers.

#### **Current Audit Status**

As of April 12, 2001, the software was installed on only eight of the ten computers specified in the agreement, and the 24 hours of training specified in the agreement has not been provided. In addition, transactions have not been entered into the database system since July 2000.

This finding has not been resolved.

#### **EXIT CONFERENCE**

An exit conference was held at the offices of the Board of Liquor License Commissioners on May 22, 2001. Those in attendance were:

Nathan C. Irby, Jr.	Board of Liquor License Commissioners
Jane M. Schroeder	Board of Liquor License Commissioners
Michael R. Maguire	Baltimore City Department of Audits
Jack P. Evans	Baltimore City Department of Audits
Beverly L. Reich	Baltimore City Department of Audits
David J. Lamantia	Baltimore City Department of Audits

Audit findings and recommendations were discussed. The Board of Liquor License Commissioners responded in writing to this audit report. The Board's response is included as Appendix I of this report.

In its response, the Board did not address the status of the prior year finding related to the procurement of the data processing services. However, this item was discussed at the exit conference. The Board stated that it would obtain an assessment of its current data processing requirements and capabilities by the Mayor's Office of Information Technology Services. As a result of this assessment, the Board's data processing needs will be determined, and strategies for their resolution will be established and executed.

#### APPENDIX I

BOARD OF LIQUOR LICENSE COMMISSIONERS' RESPONSE TO THIS REPORT

LEONARD R. SKOLNIK

CLAUDIA L. BROWN WILLIAM A. WELCH, JR.



NATHAN C. IRBY, JR.
EXECUTIVE SECRETARY

JANE M. SCHROEDER
DEPUTY EXECUTIVE SECRETARY

#### STATE OF MARYLAND

#### BOARD OF LIQUOR LICENSE COMMISSIONERS

FOR BALTIMORE CITY
SUITE 200, 10 SOUTH STREET

BALTIMORE, MARYLAND 21202-3258

(410)396-4377

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May 29, 2001

Yovonda D. Brooks, CPA City Auditor 100 N. Holliday Street Baltimore, Maryland 21202

Re: Reportable Conditions

Dear Ms. Brooks:

This letter is written in response to conditions identified in the auditor's report for the Board of Liquor License Commissioners for the period ending June 30, 2000 and 1999.

Condition I - Adequate segregation of duties was not maintained

The Board acknowledges that adequate segregation of duties has not been maintained. The office staff is comprised of only seven staff members which includes the Executive Secretary, Deputy Executive Secretary and the agency's secretary. With no increase in staff, this agency has assumed responsibility for the issuance and supervision of adult entertainment licenses in the City of Baltimore as well as holding approximately 300 licenses at renewal until arrangements are made for the payment of outstanding sales taxes. The agency's Accounting Assistant II is a long time, versatile employee who often performs whatever duties are needed in peak times and during absences besides handling special projects such as the sale tax holds. This reliance on her diligence and willingness to help has led to duties being assigned to her that should be handled by other persons.

Immediate steps will be taken to separate the collection and recording of fees and fines. In addition, the Inspector's and Appeals special checking accounts will be discontinued as of July 1, 2001. Agency personnel will submit their expenses for reimbursement directly to Disbursements while a new revenue subaccount will be established for appeals fees. Expenses for appeals will be handled through the normal city disbursement procedures.

A new Office Assistant position has been approved for this agency as of July 1, 2001. While it is anticipated that this person's primary responsibility will be the filing and safe keeping of records, the person is this position will be the back up for front office activities, where fees are collected, as opposed to the current arrangement.

The proposed final resolution of this problem will be discussed with the Audit Team for their suggestions and advice.

#### Condition II - New license fees were not prorated

Historically, this agency has prorated the fees for new licenses only in the case of new Class "B" Beer, Wine & Liquor Restaurant Licenses. Now that this error has been identified, staff will take steps so that the fee of any new license will be prorated. A memo identifying the issue and the pertinent provision in Article 2B will be given to the appropriate personnel.

Condition III - Required documentation regarding Zoning approval and Fire Department inspection was missing from a new licensee's File

Unfortunately, there is often a great deal of interest and pressure to have new licensees issued for operation. Verbal approvals and clearances are often called in and clearances authorized so that a license may issued. Board personnel will be reminded of the necessity for clearances and/or authorization in writing and a procedure will be clearly written to address the importance of the appropriate authorizations as well as the documentation and preservation of the approval and/or clearance.

Condition IV - Underlying time records did not support Payroll Attendance Report information

The Board acknowledges that there continues to be problems concerning the maintenance of attendance records within the Inspection Division. This matter will again be referred to the Chief and Assistant Chief Inspectors for resolution.

Condition V - There was a lack of adequate internal controls over the reimbursement of Inspectors' Expenses

As of July 1, 2001, reimbursement for Inspectors' Expenses will no longer be handled through this agency. That does not, however, solve the problem of not valid/appropriate expenses or expenses that were not properly authorized/approved by the Chief and/or Assistant Chief of the Inspection Division. Those individuals will be reminded of their responsibility in carrying out the policies and procedures of the City's Administrative Manual and directed to develop written policies and procedures for this purpose.

Condition VI - Checking account was not reconciled to the bank statement balance at June 30, 2000

The Board acknowledges that the Inspectors' Expense checking account was not reconciled to the bank statement and was not maintained in the proper manner. This account will be no longer be used as of July 1, 2001 for the reimbursement of expenses and will be closed.

Very truly yours,

Nathan C. Irby, Jr. Executive Secretary